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BEFORE THE ARIZONA CORPORATION COMMISSION
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COMMISSIONERS

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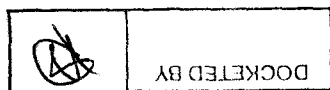
IN THE MATTER OF THE APPLICATION OF
BLACK MOUNTAIN SEWER CORPORATION,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE OF
ITS UTILITY PLANT AND PROPERTY AND
FOR INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICE BASED
THEREON.

DOCKET NO. SW-02361A-05-0657

STAFF'S NOTICE OF ERRATA

Staff of the Arizona Corporation Commission ("Staff") hereby files this Notice of Errata in the above-entitled matter. The attached Schedules were advertently omitted from Staff's Closing Brief on August 21, 2006. The Parties' were sent electronic versions of the Schedules on the day of the original filing.

RESPECTFULLY SUBMITTED this 19th day of October, 2006.



9007 6 1 100

DOCKETED
Arizona Corporation Commission

Keith A. Layton, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
Attorneys for Staff

Original and thirteen copies filed
this 19th day of October, 2006 with:

Docket Control

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Phoenix, Arizona 85007

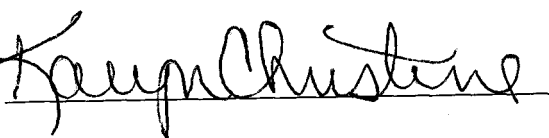
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1 Copies of the foregoing mailed
2 on this 19th day of October, 2006 to:

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Black Mountain Sewer Company
Docket No. SW-02361A-05-0657
Test Year Ended December 31, 2004

Brief Schedule CSB-0a

REVENUE REQUIREMENT CHANGES FROM STAFF'S LATE FILED SURREBUTTAL

LINE NO.	DESCRIPTION	[A] STAFF LATE FILED SURREBUTTAL	[B] ADJUSTMENTS	[C] STAFF BRIEF
1	Adjusted Rate Base	\$ 1,347,272	\$ 203,438	\$ 1,550,710
2	Adjusted Operating Income (Loss)	\$ 30,355	\$ (25,536)	\$ 4,819
3	Current Rate of Return (L2 / L1)	2.25%	-1.94%	0.31%
4	Required Rate of Return	9.60%	\$ -	9.60%
5	Required Operating Income (L4 * L1)	\$ 129,338	\$ 19,530	\$ 148,868
6	Operating Income Deficiency (L5 - L2)	\$ 98,983	\$ 45,066	\$ 144,049
7	Gross Revenue Conversion Factor	1.74069	(0.00381)	1.73688
8	Increase In Gross Revenue (L7 * L6)	\$ 172,299	\$ 77,896	\$ 250,195
9	Adjusted Test Year Revenue	\$ 1,205,452	\$ -	\$ 1,205,452
10	Proposed Annual Revenue (L8 + L9)	\$ 1,377,751	\$ 77,896	\$ 1,455,647
11	Required Increase in Revenue (%) (L8/L9)	14.29%	6.46%	20.76%

References:

Column [A]: Staff's Late Filed Surrebuttal Schedule CSB-1

Column [B]: Column C - Column A

Column [C]: Staff's Brief Schedule CSB-1

RATE BASE CHANGES FROM LATE-FILED SURREBUTTAL

LINE NO.	(A) STAFF LATE-FILED SURREBUTTAL	(B) STAFF ADJUSTMENTS	Ref	(C) STAFF BRIEF
1	Plant in Service	\$ 8,205,154		\$ 8,544,987
2	Post-Test Year Plant	85,699		85,699
3	Total Plant In Service	\$ 8,290,853		\$ 8,630,686
4	Less: Accumulated Depreciation	4,385,918		4,331,129
3	Net Plant in Service	\$ 3,904,935		\$ 4,299,557
LESS:				
4	Advances in Aid of Construction (AIAC)	\$ 1,315,900		\$ 1,311,349
5	Service Line and Meter Advances	\$ -		\$ -
6	Contributions in Aid of Construction (CIAC)	\$ 4,707,536		\$ 4,857,632
7	Less: Accumulated Amortization	3,301,772		3,256,134
8	Net CIAC	\$ 1,405,764		\$ 1,601,498
9	Total Advances and Contributions	\$ 2,721,664		\$ 2,912,847
10	Customer Deposits	\$ -		\$ -
11	Accumulated Deferred Income Taxes	\$ 164,000		\$ 164,000
ADD:				
12	Prepayments	\$ -		\$ -
13	Working Capital	\$ -		\$ -
14	Total Rate Base	\$ 1,347,271		\$ 1,550,711

Ref Explanation of Adjustments

- 1 To add \$339,833 in unrecorded plant purchased with CIAC
- 2 To properly reflect accumulated depreciation on PTY Plant
(\$19,539) Corrects error in Staff's Late Filed Surrebuttal
(\$19,539) Properly removes cost from accum deprec
(\$39,078)
(\$15,711) Removes accum deprec on affiliate plant
(\$54,789)
- 3 \$145,545 Adds unrecorded AIAC
(\$150,096) Reclassifies expired AIAC to CIAC
(\$4,551)
- 4 \$150,096 Reclassifies expired AIAC to CIAC
- 5 \$41,276 To reflect 51/2 years amort on expired AIAC
(\$150,096 x .025) + (\$150,096x.05x5)
\$7,685 To correct Company's calculation error on
Bourassa Rebuttal, Sch B-2, line 18
Number should be \$153,689 not \$161,374
(\$20,834) Company's amort on CIAC to be refunded
(-\$833,367 x .05 = -\$20,834)
\$20,834 To remove Company's adjustment
(\$94,600) To reflect Staff's calculation of amortization
on CIAC to be refunded (see CSB-8a, Page 3),
(\$45,639)

References:

Column [A]: Staff Late Filed Surr Sch CSB-4

Column [B]: Column [C] - Column [A]

Column [C]: Staff Brief Sch CSB-4

OPERATING INCOME - CHANGES FROM STAFF'S LATE FILED SURREBUTTAL

LINE NO.	DESCRIPTION	[A] STAFF LATE FILED SURREBUTTAL	[B] ADJUSTMENTS	[C] STAFF LATE FILED SURREBUTTAL
REVENUES:				
1	Flat Rate Revenues	\$ 1,188,980	\$ -	\$ 1,188,980
2	Other Wastewater Revenues	16,472	-	16,472
3	Total Operating Revenues	\$ 1,205,452	\$ -	\$ 1,205,452
EXPENSES:				
4	Salaries and Wages	\$ -	\$ -	\$ -
5	Purchased Wastewater Treatment	162,082	-	162,082
6	Sludge Removal Expense	981	-	981
7	Purchased Power	47,727	-	47,727
8	Fuel for Power Production	-	-	-
9	Chemicals	76,612	-	76,612
10	Materials and Supplies	26,796	(0)	26,796
11	Contractual Services - Professional	159,250	(0)	159,250
12	Contractual Services - Testing	11,000	-	11,000
13	Contractual Services - Other	204,325	(0)	204,325
14	Rental Expense	10,259	(0)	10,259
15	Transportation Expense	2,543	0	2,543
16	Insurance - General Liability	15,608	(0)	15,608
17	Regulatory Commission Expense	31,200	-	31,200
18	Miscellaneous Expense	63,851	0	63,851
19	Scottsdale Capacity Operating Lease	161,821	(0)	161,821
20	Depreciation	79,602	50,287 1	129,889
21	Taxes Other Than Income	-	-	-
22	Property Taxes	45,771	944 2	46,715
23	Income Taxes	75,670	(25,695)	49,975
24	Total Operating Expenses	\$ 1,175,098	\$ 25,535	\$ 1,200,633
25	Operating Income (Loss)	\$ 30,354	\$ (25,535)	\$ 4,819

Ref Explanation of Adjustments

- 1 To properly reflect accumulated depreciation on PTY Plant
\$ 41,288.84 To include depreciation expense on Struc & Impr (\$1,239,905 x 3.33%)
\$ 6,796.66 To reflect depreciation expense on unrecord CIAC plant (\$339,833 x 2%)
\$ 48,085.50
\$ 2,200.00 To reflect decrease in amort of CIAC from Late-filed (\$192,719-190,519)
\$ 50,285.50
\$ 1.50 Rounding
\$ 50,287.00 Increase in Depreciation Expense
- 2 \$ 944.00 Increase due to higher revenue requirement
- 3 \$ (25,695.00) Decrease due to lower operating income

References:

Column (A): Staff's Late Filed Surrebuttal Schedule CSB-13
Column (B): Column (C) + Column (A)
Column (C): Staff's Brief Schedule CSB-13

Black Mountain Sewer Company
Docket No. SW-02361A-05-0657
Test Year Ended December 31, 2004

Brief Schedule CSB-1

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$ 887,449	\$ 1,550,710
2	Adjusted Operating Income (Loss)	\$ (14,232)	\$ 4,819
3	Current Rate of Return (L2 / L1)	-1.60%	0.31%
4	Required Rate of Return	10.00%	9.60%
5	Required Operating Income (L4 * L1)	\$ 88,745	\$ 148,868
6	Operating Income Deficiency (L5 - L2)	\$ 102,977	\$ 144,049
7	Gross Revenue Conversion Factor	1.73080	1.73688
8	Increase In Gross Revenue (L7 * L6)	\$ 178,232	\$ 250,195
9	Adjusted Test Year Revenue	\$ 1,207,740	\$ 1,205,452
10	Proposed Annual Revenue (L8 + L9)	\$ 1,385,972	\$ 1,455,647
11	Required Increase in Revenue (%) (L8/L9)	14.76%	20.76%

References:

Column [A]: Company Schedules A-1, C-1, C-3, & D-1

Column [B]: Staff Schedules CSB-2, CSB-3, & CSB-7

Black Mountain Sewer Company
Docket No. SW-02361A-05-0657
Test Year Ended December 31, 2004

Brief Schedule CSB-2

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<i>Calculation of Gross Revenue Conversion Factor:</i>					
1	Billings	1.000000			
2	Uncollectible Factor	0.000000			
3	Revenues	1.000000			
4	Less: Combined Federal and State Tax Rate (Line 12)	0.424254			
5	Subtotal (L3 - L4)	0.5757			
6	Revenue Conversion Factor (L1 / L5)	1.73688			
<i>Calculation of Effective Tax Rate:</i>					
7	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
8	Arizona State Income Tax Rate	6.9680%			
9	Federal Taxable Income (L7 - L8)	93.0320%			
10	Applicable Federal Income Tax Rate (Line 34)	38.1131%			
11	Effective Federal Income Tax Rate (L9 x L10)	35.4574%			
12	Combined Federal and State Income Tax Rate (L8 +L11)	42.4254%			

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 8,464,745	\$ 165,941	\$ 8,630,686
2	Less: Accumulated Depreciation	4,366,379	(35,250)	4,331,129
3	Net Plant in Service	<u>\$ 4,098,366</u>	<u>\$ 201,191</u>	<u>\$ 4,299,557</u>
	<u>LESS:</u>			
4	Advances in Aid of Construction (AIAC)	\$ 1,315,900	\$ (4,551)	\$ 1,311,349
5	Service Line and Meter Advances	\$ -	\$ -	\$ -
6	Contributions in Aid of Construction (CIAC)	\$ 5,346,615	\$ (488,983)	\$ 4,857,632
7	Less: Accumulated Amortization	3,308,578	(52,444)	3,256,134
8	Net CIAC	<u>\$ 2,038,037</u>	<u>(436,539)</u>	<u>\$ 1,601,498</u>
9	Total Advances and Contributions	\$ 3,353,937	\$ (441,090)	\$ 2,912,847
10	Customer Deposits	\$ (3,000)	\$ 3,000	\$ -
11	Accumulated Deferred Income Taxes	\$ -	\$ 164,000	\$ 164,000
	<u>ADD:</u>			
12	Prepayments	\$ 9,512	\$ (9,512)	\$ -
13	Working Capital	\$ 130,508	\$ (130,508)	\$ -
14	Total Rate Base	<u>\$ 887,449</u>	<u>\$ 663,261</u>	<u>\$ 1,550,710</u>

References:

Column [A]: Staff Late Filed Surr Sch CSB-4
Column [B]: Column [C] - Column [A]
Column [C]: Staff Brief Sch CSB-4

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SUMMARY OF RATE BASE ADJUSTMENTS																						
LINE NO.	PLANT IN SERVICE	[A] COMPANY AS FILED	[B] Adj No.1 PTY Plant & Accu Depr	[C] Adj No. 2 Affiliate Costs & Capitalized Profits	[D] Adj No. 3 Expensed Plant	[E] Adj No. 4a CIAC, Amort of CIAC, & AIAC	[F] Adj No. 4b Unrecorded CIAC	[G] Adj No. 5 Customer Deposits	[H] Adj No. 6 Deferred Income Taxes	[I] Adj No. 7 Working Capital	[J]											
												Ref: Sch CSB-5	Ref: Sch CSB-6	Ref: Sch CSB-7	Ref: Sch CSB-8a	Ref: Sch CSB-8b	Ref: Sch CSB-9	Ref: Sch CSB-10	Ref: Sch CSB-11	STAFF AS ADJUSTED		
1	Acct. No. - Plant Description	\$ 461,446	\$ -	\$ (146)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 461,300											
2	353 - Land and Land Rights																					
3	354 - Structures and Improvements	1,245,292	-	(5,387)	-	-	-	-	-	-	1,239,905											
4	360 - Collection Services - Force	228,785	-	(205)	-	-	339,833	-	-	-	568,413											
5	361 - Collection Services - Gravity	3,608,619	-	(1,361)	7,286	-	-	-	-	-	3,614,545											
6	363 - Services to Customers	158,802	-	(1,584)	-	-	-	-	-	-	157,218											
7	364 - Flow Measuring Devices	39,878	-	(49)	-	-	-	-	-	-	39,829											
8	365 - Flow Measuring Installations	158,358	-	(2,154)	-	-	-	-	-	-	156,205											
9	370 - Receiving Wells	696,506	-	(369)	-	-	-	-	-	-	696,137											
10	371 - Effluent Pumping Equipment	451,705	-	(360)	2,213	-	-	-	-	-	453,558											
11	381 - Plant Sewers	121,651	-	(1,152)	2,790	-	-	-	-	-	123,289											
12	389 - Other Plant and Misc Equip	738,804	(19,539)	(5,185)	5,059	-	-	-	-	-	719,139											
13	390 - Office Furniture and Equipment	365,512	-	(145,152)	-	-	-	-	-	-	220,360											
14	391 - Transportation Equipment	87,811	-	-	-	-	-	-	-	-	87,811											
15	394 - Laboratory Equipment	7,279	-	-	-	-	-	-	-	-	7,279											
16	Total Plant in Service - Actual	\$ 8,370,448	\$ (19,539)	\$ (163,103)	\$ 17,348	\$ -	\$ 339,833	\$ -	\$ -	\$ -	\$ 8,544,987											
17	Pro-forma Adjustment	94,297	(8,598)	-	-	-	-	-	-	-	85,699											
18	Total Plant in Service	\$ 8,464,745	\$ (28,137)	\$ (163,103)	\$ 17,348	\$ -	\$ 339,833	\$ -	\$ -	\$ -	\$ 8,630,686											
19	Less: Accu Depreciation - Actual	\$ 4,441,760	-	-	-	-	-	-	-	-	\$ 4,441,760											
20	Less: Accu Depreciation - Pro Forma	75,381	19,539	15,711	-	-	-	-	-	-	110,631											
21	Total Accu Depreciation - Adjusted	\$ 4,366,379	\$ (19,539)	\$ (15,711)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,331,129											
22	Net Plant in Service	\$ 4,098,366	\$ (8,598)	\$ (147,392)	\$ 17,348	\$ -	\$ 339,833	\$ -	\$ -	\$ -	\$ 4,299,557											
23	LESS:																					
24	Advances in Aid of Construction (AIAC)	\$ 1,315,900	\$ -	\$ -	\$ -	\$ (4,551)	\$ -	\$ -	\$ -	\$ -	\$ 1,311,349											
25	Service Line and Meter Advances	\$ -	-	-	-	-	-	-	-	-	-											
26	Contributions in Aid of Construction (CIAC)	\$ 5,800,321	-	-	-	(488,983)	-	-	-	-	\$ 5,311,338											
27	Less: CIAC - Pro Forma	453,706	-	-	-	-	-	-	-	-	453,706											
28	Total CIAC - Adjusted	\$ 5,346,615	\$ -	\$ -	\$ -	\$ (488,983)	\$ -	\$ -	\$ -	\$ -	\$ 4,857,632											
29	Less: Accumulated Amortization	\$ 3,486,218	-	-	-	(52,444)	-	-	-	-	\$ 3,433,774											
30	Less: Accumulated Amort - Pro Forma	177,640	-	-	-	-	-	-	-	-	177,640											
31	Net CIAC	\$ 3,308,578	\$ -	\$ -	\$ -	\$ (52,444)	\$ -	\$ -	\$ -	\$ -	\$ 3,256,134											
32	Total Advances and Net Contributions	\$ 2,038,037	-	-	-	(436,539)	-	-	-	-	\$ 1,601,498											
33	Customer Deposits	\$ 3,353,937	-	-	-	(441,090)	-	-	-	-	\$ 2,912,847											
34	Accumulated Deferred Income Taxes	\$ (3,000)	-	-	-	-	-	3,000	-	-	\$ -											
35	ADD:																					
36	Prepaid Expenses	\$ 9,512	-	-	-	-	-	-	-	-	\$ (9,512)											
37	Working Capital Allowance	130,508	-	-	-	-	-	-	-	-	(130,508)											
38	Total Rate Base	\$ 887,449	\$ (8,598)	\$ (147,392)	\$ 17,348	\$ 441,090	\$ 339,833	\$ (3,000)	\$ 164,000	\$ (140,020)	\$ 1,550,710											

Black Mountain Sewer Company
Docket No. SW-02361A-05-0657
Test Year Ended December 31, 2004

Brief Schedule CSB-5

RATE BASE ADJUSTMENT NO. 1 - POST-TEST YEAR PLANT & ACC DEPRECIATION

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED (Sch E-5)	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	2004 Actual Plant - Removal of TY Chlorinator	\$ 8,370,448	\$ (19,539)	\$ 8,350,909
2	Post Test Year Chlorinator	\$ 94,297	\$ (8,598)	\$ 85,699
3	Total Gross Plant	\$ 8,464,745	\$ (28,137)	\$ 8,436,608
	2004 Actual Accumulated Depreciation	\$ 4,366,379	\$ (19,539)	\$ 4,346,840
	Net Plant In Service	\$ 4,098,366	\$ (8,598)	\$ 4,089,768

References:

Column [A]: Company Schedule B-2, Pages 1 and 2

Column [B]: Testimony, CSB

Column [C]: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - AFFILIATE COSTS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		2001 to 2004 Plant Additions PER COMPANY	STAFF ADJUSTMENTS	STAFF AS ADJUSTED Col A - Col B
1	353 - Land and Land Rights	\$ 453,592	\$ 146	\$ 453,446
2	354 - Structures and Improvements	242,441	5,387	\$ 237,054
3	355 - Power Generation Equipment	-	-	\$ -
4	360 - Collection Services - Force	12,210	205	\$ 12,005
5	361 - Collection Services - Gravity	797,304	1,361	\$ 795,943
6	363 - Services to Customers	29,161	1,584	\$ 27,577
7	364 - Flow Measuring Devices	9,169	49	\$ 9,120
8	365 - Flow Measuring Installations	-	2,154	\$ (2,154)
9	370 - Receiving Wells	58,584	369	\$ 58,215
10	371 - Effluent Pumping Equipment	181,924	360	\$ 181,564
11	381 - Plant Sewers	198,712	1,152	\$ 197,560
12	389 - Other Plant and Miscellaneous Equip	699,247	5,185	\$ 694,062
13	390 - Office Furniture and Equipment	365,511	145,152	\$ 220,359
14	391 - Transportation Equipment	87,811	-	\$ 87,811
15	394 - Laboratory Equipment	5,079	-	\$ 5,079
16	Total	\$ 3,140,745	\$ 163,103	\$ 2,977,642

References:

Column [A]: Company Schedule B-2, Pages 3h through 3k

Column [B]: Testimony, CSB; Schedule CSB-6, Pages 2 through 4

Column [C]: Column [A] - Column [B]

RATE BASE ADJUSTMENT NO. 2 - AFFILIATE COSTS
Total Affiliate Costs To Be Removed

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		Affiliate Capitalized Profit	Plant Allocated to Affiliates	Total Staff Adjustments (Col A + Col B)
1	353 - Land and Land Rights	\$ 146	\$ -	\$ 146
2	354 - Structures and Improvements	\$ 5,387	-	\$ 5,387
3	355 - Power Generation Equipment	\$ -	-	\$ -
4	360 - Collection Services - Force	\$ 205	-	\$ 205
5	361 - Collection Services - Gravity	\$ 1,361	-	\$ 1,361
6	363 - Services to Customers	\$ 1,584	-	\$ 1,584
7	364 - Flow Measuring Devices	\$ 49	-	\$ 49
8	365 - Flow Measuring Installations	\$ 2,154	-	\$ 2,154
9	370 - Receiving Wells	\$ 369	-	\$ 369
10	371 - Effluent Pumping Equipment	\$ 360	-	\$ 360
11	381 - Plant Sewers	\$ 1,152	-	\$ 1,152
12	389 - Other Plant and Miscellaneous Equip	\$ 5,185	-	\$ 5,185
13	390 - Office Furniture and Equipment	\$ 2,920	142,232	\$ 145,152
14	391 - Transportation Equipment	\$ -	-	\$ -
15	394 - Laboratory Equipment	\$ -	-	\$ -
16	Total	\$ 20,871	\$ 142,232	\$ 163,103

References:

Column [A]: Schedule CSB-6, Page 3

Column [B]: Schedule CSB-6, Page 4; Data Request Response CSB 1.45

Column [C]: Column [A] + Column [B]

Black Mountain Sewer Company
Docket No. WS-01025A-03-0350
Test Year Ended December 31, 2002

RATE BASE ADJUSTMENT NO. 2 - AFFILIATE COSTS
Affiliate Capitalized Profit

LINE NO.	DESCRIPTION	[A] 2001 to 2004 Plant Additions Per Company	[B] Plant Allocated to Affiliate Sch CSB-6, Page 2	[C] Total (Col A - Col B)	[D] Capitalized Profit 2001	[E] Capitalized Profit 2002	[F] Capitalized Profit 2003	[G] Capitalized Profit 2004	[H] Total Capitalized Profit (Col D+E+F+G)	[I] Plant Less Capitalized Profit (Col C - Col H)
1	353 - Land and Land Rights	\$ 453,592	-	\$ 453,592	\$ -	\$ 146.25	\$ -	\$ -	\$ 146.25	\$ 453,446
2	354 - Structures and Improvements	242,441	-	242,441	\$ 673.37	\$ 2,975.09	\$ 350.64	\$ 1,388.06	\$ 5,387.16	\$ 237,054
3	355 - Power Generation Equipment	-	-	-	-	-	-	-	-	-
4	360 - Collection Services - Force	12,210	-	12,210	-	\$ 204.75	-	-	204.75	12,005
5	361 - Collection Services - Gravity	797,304	-	797,304	-	\$ 463.52	-	\$ 897.03	\$ 1,360.55	\$ 795,943
6	363 - Services to Customers	29,161	-	29,161	\$ 22.44	\$ 1,344.20	\$ 136.08	\$ 80.85	\$ 1,583.57	\$ 27,577
7	364 - Flow Measuring Devices	9,169	-	9,169	-	\$ 48.75	-	-	48.75	9,120
8	365 - Flow Measuring Installations	158,358	-	158,358	-	\$ 1,467.70	\$ 685.80	-	\$ 2,153.50	\$ 156,205
9	370 - Receiving Wells	58,584	-	58,584	-	\$ 369.20	-	-	369.20	58,215
10	371 - Effluent Pumping Equipment	181,924	-	181,924	\$ 333.07	\$ 27.30	-	-	360.37	181,564
11	381 - Plant Sewers	40,354	-	40,354	-	-	\$ 1,152.00	-	\$ 1,152.00	39,202
12	389 - Other Plant and Misc. Equip	699,247	-	699,247	\$ 134.66	\$ 4,348.43	\$ 178.82	\$ 523.22	\$ 5,185.13	\$ 694,062
13	390 - Office Furniture and Equipment	365,511	142,232	223,279	\$ 502.74	\$ 1,752.56	\$ 598.22	\$ 66.26	\$ 2,919.78	\$ 220,359
14	391 - Transportation Equipment	87,811	-	87,811	-	-	-	-	-	87,811
15	394 - Laboratory Equipment	5,079	-	5,079	-	-	-	-	-	5,079
16	Total	\$ 3,140,745	\$ 142,232	\$ 2,998,513	\$ 1,666.28	\$ 13,147.75	\$ 3,101.56	\$ 2,955.42	\$ 20,871.01	\$ 2,977,642

References:

Column [A]: Company Schedule B-2, Pages 3h through 3k
Column [B]: Schedule CSB-6, Page 4; Data Request Response CSB 1.45
Column [C]: Column [A] - Column [B]
Column [D]: Data Request Response CSB 10.1
Column [E]: Data Request Response CSB 10.1
Column [F]: Data Request Response CSB 10.1
Column [G]: Data Request Response CSB 10.1
Column [H]: Data Request Response CSB 10.1
Column [I]: Column [C] - Column [H]

RATE BASE ADJUSTMENT NO. 2 - AFFILIATE PLANT COSTS
Computer and Computer Software

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS	[C] STAFF AS ADJUSTED (Col A - Col B)
1	Office Furniture & Equip	\$ 162,908	\$ -	\$ 162,908
2	Allocated Costs for Affiliates	-	72,505	(72,505)
3	Direct Costs for Bella Vista CSB 2.7	-	69,727	(69,727)
4	Total	\$ 162,908	\$ 142,232	\$ 20,676
5	Accumulated Depreciation	\$ -	\$ 15,711	\$ 15,711
6	Net Plant In Service	\$ 162,908	\$ 126,521	\$ 4,965

	[D] Costs to be Allocated (From Col P)	[E] Percentage for Black Mountain (From Col R)	[F] Costs to be Allocated to Black Mtn (Col D x Col E)	[G] Percentage for Affiliates (Cols S+T+U)	[H] Costs to be Allocated to Affiliates (Col D x Col G)	[I] Total for Black Mountain & Affiliates (Col F + Col H)
7	\$ 48,800	22.19%	\$ 10,828	77.81%	\$ 37,972	\$ 48,800
8	\$ 8,017	22.19%	\$ 1,779	77.81%	\$ 6,238	\$ 8,017
9	\$ 11,076	22.19%	\$ 2,458	77.81%	\$ 8,618	\$ 11,076
10	\$ 10,307	22.19%	\$ 2,287	77.81%	\$ 8,020	\$ 10,307
11	\$ 8,459	22.19%	\$ 1,877	77.81%	\$ 6,582	\$ 8,459
12	\$ 6,522	22.19%	\$ 1,447	77.81%	\$ 5,075	\$ 6,522
13	\$ -	22.19%	\$ -	77.81%	\$ -	\$ -
14	\$ 93,181		\$ 20,676		\$ 72,505	\$ 93,181

	[J] Year Added	[K] Account Number	[L] Description	[M] Cost Per CSB 1.45 & CSB 2.7	[N] Amount Included In Adj. No. 2 Acct. No. 390	[O] Costs to be Allocated
15	2002	212	Software Upgrades	\$ 48,800	\$ -	\$ 48,800
16	2003	257	Equipment/Automation	\$ 8,017	\$ -	\$ 8,017
17	2003	261	Equipment/Automation	\$ 11,076	\$ -	\$ 11,076
18	2003	270	Equipment/Automation	\$ 10,307	\$ -	\$ 10,307
19	2003	273	System Migration	\$ 8,459	\$ -	\$ 8,459
20	2003	298	Professional Services	\$ 6,522	\$ -	\$ 6,522
21	2003	319	Data Conversion	\$ 14,044	\$ (14,044)	\$ -
22			Total	\$ 107,225	\$ (14,044)	\$ 93,181

	[Q] Black Mountain	[R] Gold Canyon	[S] Tall Timbers	[T] Woodmark	[U] Total
23 12/31/2005 Customer Counts ¹	1,798	4,491	978	836	8,103
24 Percentage of Total Customers	22.19%	55.42%	12.07%	10.32%	100.00%

25 Note 1: 2005 Customer counts were used as the 2002 and 2003 counts for Tall Timbers and Woodmark
26 were not provided to Staff for the calculation.

References:

Column A: Company Schedule E-5
Column B: Testimony, CSB, Company Data Request Responses CSB 1.45
Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 3 - EXPENSED PLANT

LINE NO.	Plant Account Number	Description	[A]	[B]	[C]
			COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED (Col A + Col B)
1	361	Collection Sewers, Gravity	\$ 3,608,619	\$ 7,286	\$ 3,615,905
2	371	Effluent Pumping Equipment	\$ 451,705	\$ 2,213	\$ 453,918
3	381	Plant Sewers	\$ 121,651	\$ 2,790	\$ 124,441
4	389	Other Plant & Misc Equip	\$ 738,804	\$ 5,059	\$ 743,863
5		Total	\$ 4,920,779	\$ 17,348	\$ 4,938,127

FROM CONTRACTUAL SERVICES , OTHER EXPENSE (CSB 1.37)				
Acct. No.	Vendor Name	Description	Amount	
6	361-Collection Sewers	Jensen System Engineering	Algonquin Indian Basket Alarm	\$ 1,499.01
7	361-Collection Sewers	Keller Equipment Company	Pull and Install Motors	\$ 1,947.71
8	361-Collection Sewers	Keller Equipment Company	Rebuild Motor/Pump	\$ 1,119.65
9	361-Collection Sewers	KSK Electric	Replace Meter Socket	\$ 1,315.00
10	361-Collection Sewers	LTC, Inc.	Concrete Pad & Drain for Manhole	\$ 1,404.92
11		Subtotal		\$ 7,286.29
12	371-Effluent Pumping Plant	Keller Equipment Company	Change out Pumps	\$ 551.62
13	371-Effluent Pumping Plant	Keller Equipment Company	Pull Pump. Set New Pump	\$ 1,095.40
14		Subtotal		\$ 1,647.02
15	381-Plant Sewers	Foster Electric Motor Service	Install Outlets in Vault	\$ 589.57
16	381-Plant Sewers	KSK Electric	Boulder Facility Lighting Repair Proj.	\$ 2,200.00
17		Subtotal		\$ 2,789.57
18		Total		\$ 11,722.88

FROM RENTS EXPENSE (CSB 1.38)				
Acct. No.	Vendor Name	Description	Amount	
19	371-Effluent Pumping Plant	Pump Systems, Inc.	Replace Pump	\$ 566.13
20		Total		\$ 566.13

References:

Column A: Company Schedule E-5
Column B: Testimony, CSB, Company Data Request Responses CSB 1.37, 1.38, 1.40, & 7.13
Column C: Column [A] + Column [B]

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Brief Schedule CSB-7
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**RATE BASE ADJUSTMENT NO. 3 - EXPENSED PLANT
CONTINUED**

LINE NO.	FROM MISCELLANEOUS EXPENSE (CSB 1.40)			
	Maricopa County Environ. Serv. Dept, Approval to Construct Expedited Fees			
	Acct. No	Project Title	Description	Amount
1	389-Other Plant & Misc Equip	Boulders West WWTP Bypass	Reclaimed Water Line	\$ 500.00
2	389-Other Plant & Misc Equip	Boulders West Effluent Pump	Addition of pumps	\$ 700.00
3	371-Effluent Pumping Plant	Indian Basket Lift Station	Replace Existing Lift Station	\$ -
4	389-Other Plant & Misc Equip	Boulders West WWTP Bypass	Add Structure and Manhole	\$ -
5			Subtotal	\$ 1,200.00
6	389-Other Plant & Misc Equip	Safety Equipment	Company Response to CSB 2.13b	\$ 2,184.75
7			Total	\$ 3,384.75

FROM MATERIALS AND SUPPLIES EXPENSE (CSB 7.13)			
Acct. No.	Vendor Name	Description	Amount
8	389-Other Plant & Misc Equip	Arizona Pneumatic Systems	Blower
			\$ 1,674.47
9		Total	\$ 1,674.47

RATE BASE ADJUSTMENT NO. 4A - CIAC & Amortization of CIAC

LINE NO.	Description	[A] COMPANY AS FILED	[B] ADJUSTMENTS	[C] STAFF AS ADJUSTED Col A - Col B	
1	CIAC with \$101,845 removed	\$ 5,346,615	\$ 194,288	\$ 5,540,903	
2	CIAC - Reclassed from AIAC	\$ -	\$ 150,096	\$ 150,096	See CSB-0b
3	CIAC to be Refunded	\$ -	\$ (833,367)	\$ (833,367)	
4	CIAC Ending Balance	\$ 5,346,615	\$ (488,983)	\$ 4,857,632	
5	Less: Amortization of CIAC	\$ 3,308,578	\$ (52,444)	\$ 3,256,134	Includes amort on \$150,096
6	Net CIAC	\$ 2,038,037	\$ (436,539)	\$ 1,601,498	
6					

CIAC Calculation				
	[D]	[E]	[F]	[G]
	Year	CIAC Charges Per Company (RUCO 1.8)	Difference	CIAC Balance Staff Col. E - Col. F
7				
8				
9				
10	7/01/94 Opening Balance	\$ 3,127,264.00	\$ -	\$ 3,127,264.00
11	1994	\$ 116,507.00	\$ -	\$ 116,507.00
12	1995	\$ 112,578.00	\$ 3,235.00	\$ 115,813.00
13	1996	\$ 182,068.56	\$ (14,172.56)	\$ 167,896.00
14	1996 Treatment Capacity	\$ -	\$ (300,000.00)	\$ (300,000.00)
15	1997	\$ 172,749.00	\$ -	\$ 172,749.00
16	1997 Treatment Capacity	\$ -	\$ (153,706.00)	\$ (153,706.00)
17	1998	\$ 571,000.91	\$ -	\$ 571,000.91
18	1999	\$ 319,182.03	\$ -	\$ 319,182.03
19	2000	\$ 405,077.00	\$ -	\$ 405,077.00
20	2001	\$ 489,268.94	\$ -	\$ 489,268.94
21	2002	\$ 110,490.00	\$ -	\$ 110,490.00
22	2003	\$ 196,061.83	\$ (28,480.00)	\$ 167,581.83
23	2004	\$ (1,926.25)	\$ 233,705.75	\$ 231,779.50
24		\$ 5,800,321.02	\$ (259,417.81)	\$ 5,540,903.21

References:

Column A: Company Schedule B-2

Column B: Testimony, CSB, Company Data Request Responses RUCO 1.8

Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 4 - CIAC & Amortization of CIAC Continued

Line No.	Amortization of CIAC Calculation				
	[A] Year	[B] CIAC Balance Per Staff	[C] Amortization Rate	[D] Amortization of CIAC Col. A - Col. B	[E] Accumulated Amortization of CIAC
1	7/01/94 CIAC Balance Per Staff	\$ 3,127,264.00		\$ 1,121,838.00	\$ 1,121,838.00
2	1994 July to Dec Amortization	\$ 3,127,264.00	2.50%	\$ 78,181.60	
3	Additions - Half Year Convention	\$ 116,507.00	2.50%	\$ 2,912.68	
4		<u>\$ 3,243,771.00</u>		<u>\$ 81,094.28</u>	<u>\$ 81,094.28</u>
5	1994 Ending Accumulated Amortization of CIAC Balance:				\$ 1,202,932.28
6	1995 Beginning CIAC Balance	\$ 3,243,771.00	5.00%	\$ 162,188.55	\$ 1,202,932.28
7	Additions - Half Year Convention	\$ 115,813.00	2.50%	\$ 2,895.33	
8		<u>\$ 3,359,584.00</u>		<u>\$ 165,083.88</u>	<u>\$ 165,083.88</u>
9	1995 Ending Accumulated Amortization of CIAC Balance:				\$ 1,368,016.15
10	1996 Beginning CIAC Balance	\$ 3,359,584.00			
12	Less: Scottsdale Capacity	<u>\$ (300,000.00)</u>			
13		\$ 3,059,584.00	5.00%	\$ 152,979.20	\$ 1,368,016.15
14	Additions - Half Year Convention	\$ 167,896.00	2.50%	\$ 4,197.40	
15		<u>\$ 3,227,480.00</u>		<u>\$ 157,176.60</u>	<u>\$ 157,176.60</u>
16	1996 Ending Accumulated Amortization of CIAC Balance:				\$ 1,525,192.75
17	1997 Beginning CIAC Balance	\$ 3,227,480.00			
18	Less: Scottsdale Capacity	<u>\$ (153,706.00)</u>			
19		\$ 3,073,774.00	5.00%	\$ 153,688.70	\$ 1,525,192.75
20	Additions - Half Year Convention	\$ 172,749.00	2.50%	\$ 4,318.73	
21		<u>\$ 3,246,523.00</u>		<u>\$ 158,007.43</u>	<u>\$ 158,007.43</u>
22	1997 Ending Accumulated Amortization of CIAC Balance:				\$ 1,683,200.18
23	1998 Beginning CIAC Balance	\$ 3,246,523.00	5.00%	\$ 162,326.15	\$ 1,683,200.18
24	Additions - Half Year Convention	\$ 571,000.91	2.50%	\$ 14,275.02	
25		<u>\$ 3,817,523.91</u>		<u>\$ 176,601.17</u>	<u>\$ 176,601.17</u>
26	1998 Ending Accumulated Amortization of CIAC Balance:				1,859,801.35
27	1999 Beginning CIAC Balance	\$ 3,817,523.91	5.00%	\$ 190,876.20	\$ 1,859,801.35
28	Expired AIAC	\$ 150,096.00	2.50%	\$ 3,752.40	
29	Additions - Half Year Convention	\$ 319,182.03	2.50%	\$ 7,979.55	
30		<u>\$ 4,286,801.94</u>		<u>\$ 202,608.15</u>	<u>\$ 202,608.15</u>
31	1999 Ending Accumulated Amortization of CIAC Balance:				2,062,409.49
32	2000 Beginning CIAC Balance	\$ 4,286,801.94	5.00%	\$ 214,340.10	\$ 2,062,409.49
33	Additions - Half Year Convention	\$ 405,077.00	2.50%	\$ 10,126.93	
34		<u>\$ 4,691,878.94</u>		<u>\$ 224,467.02</u>	<u>\$ 224,467.02</u>
35	2000 Ending Accumulated Amortization of CIAC Balance:				2,286,876.52
36	2001 Beginning CIAC Balance	\$ 4,691,878.94	5.00%	\$ 234,593.95	\$ 2,286,876.52
37	Additions - Half Year Convention	\$ 489,268.94	2.50%	\$ 12,231.72	
38		<u>\$ 5,181,147.88</u>		<u>\$ 246,825.67</u>	<u>\$ 246,825.67</u>
39	2001 Ending Accumulated Amortization of CIAC Balance:				2,533,702.19
40	2002 Beginning CIAC Balance	\$ 5,181,147.88	5.00%	\$ 259,057.39	\$ 2,533,702.19
41	Additions - Half Year Convention	\$ 110,490.00	2.50%	\$ 2,762.25	
42		<u>\$ 5,291,637.88</u>		<u>\$ 261,819.64</u>	<u>\$ 261,819.64</u>
43	2002 Ending Accumulated Amortization of CIAC Balance:				2,795,521.83

RATE BASE ADJUSTMENT NO. 4 - CIAC & Amortization of CIAC Continued

Line No.	Amortization of CIAC Calculation				
	[A] Year	[B] CIAC Balance Per Staff	[C] Amortization Rate	[D] Amortization of CIAC Col. A - Col. B	[E] Total Amortization of CIAC
1	2003 Beginning CIAC Balance	\$ 5,291,637.88	5.00%	\$ 264,581.89	\$ 2,795,521.83
2	Additions - Half Year Convention	\$ 167,581.83	2.50%	\$ 4,189.55	
3		<u>\$ 5,459,219.71</u>		<u>\$ 268,771.44</u>	<u>\$ 268,771.44</u>
4	2003 Ending Accumulated Amortization of CIAC Balance:				3,064,293.27
5	2004 Beginning CIAC Balance	\$ 5,459,219.71	5.00%	\$ 272,960.99	\$ 3,064,293.27
6	CIAC to be refunded	\$ (833,367.00)	2.50%	\$ (20,834.18)	
7	Additions-Half Year Convention	\$ 231,779.50	2.50%	\$ 5,794.49	
8		<u>\$ 4,857,632.21</u>		<u>\$ 257,921.30</u>	<u>\$ 257,921.30</u>
9	2004 Ending Accumulated Amortization of CIAC Balance Before Adjustments:				3,322,214.57
10	Company erroneously included amount due to incorrect CIAC rate used in cell formula				\$ 7,685.00
11	Company's Amort of CIAC Balance (Bourassa Rebuttal Sch B-2, Page 12, line 53)				\$ 3,329,899.57
12	To remove Company's amortization on CIAC refund				\$ 20,834.18
13	To reflect Staff's Acc Amort of CIAC (see Line 21 of Note below for calculation)				\$ (94,600.05)
14	2004 Ending Accumulated Amortization of CIAC Balance:				\$ 3,256,133.69

Note:

Staff's Calculation of Accumulation Amortization on CIAC to be Refunded

Amortization of CIAC for Land	\$ (67,870.05)
Amortization of CIAC for Unexpended CIAC	\$ (19,045.00)
Total Accumulated Amort of CIAC Excluding Company's Adj on Line 6, Col D	\$ (86,915.05)
To reflect Company's agreement to make correction in its schedules	\$ (7,685.00)
	<u>\$ (94,600.05)</u>

CIAC-Land

CIAC to be refunded- Land	\$ (452,467.00)
Multiplied by 3 Years	\$ 3.00
	<u>\$ (1,357,401.00)</u>
Multiplied by: Amortization Rate	\$ 0.05
	<u>\$ (67,870.05)</u>

Less: Unexpended CIAC

CIAC to be refunded- Unexpended CIAC	\$ (380,900.00)
Multiplied by 1 Year	\$ 1.00
	<u>\$ (380,900.00)</u>
Multiplied by: Amortization Rate	\$ 0.05
	<u>\$ (19,045.00)</u>

The Company removed \$20,834 in accumulated amortization on the CIAC as shown on Bourassa Rebuttal Schedule B-2, Page 12, sum of lines 49 and 50. The Company is assuming that the accumulated amortization related to the CIAC refund is calculated as if the CIAC only existed in the Test Year. That is, it reflects only half of the amortization of CIAC according to the half year convention.

Staff's adjustment removes three years of amortization of CIAC on the \$452,467 in CIAC that was used to purchase land in 2001. Staff's adjustment also removes one year of amortization of CIAC on the unexpended CIAC cash balance.

LINE NO.	Description	[A]		[B]		[C]	
		COMPANY AS FILED		ADJUSTMENTS		STAFF AS ADJUSTED Col A - Col B	
1	AIAC	\$	1,315,900	\$	-	\$	1,315,900
2	Plus: Unrecorded AIAC	\$	-	\$	145,545	\$	145,545
3	Less: AIAC reclassified to CIAC	\$	-	\$	(150,096)	\$	(150,096)
4	AIAC	\$	1,315,900	\$	(4,551)	\$	1,311,349

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RATE BASE ADJUSTMENT NO. 4B - Unrecorded CIAC Plant

		[A]		[B]		[C]	
LINE NO. Description		COMPANY AS FILED		ADJUSTMENTS		STAFF AS ADJUSTED Col A - Col B	
1	Unrecorded CIAC Plant	\$	-	\$	339,833	\$	339,833

References:

Column A: Company Schedule B-2

Column B: Company Rebuttal Testimony Schedule B-2, page 2 and page 12

Column C: Column [A] + Column [B]

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Brief Schedule CSB-9

RATE BASE ADJUSTMENT NO. 5 - CUSTOMER DEPOSITS

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Customer Deposits - To Remove Refund	\$ (3,000)	\$ 3,000	\$ -
2	Customer Deposits - To Reflect Year-End Balance	-	-	-
3	Total	<u>\$ (3,000)</u>	<u>\$ 3,000</u>	<u>\$ -</u>

References:

Column A: Company Schedule B-2

Column B: Testimony, CSB, Company Data Request Responses CSB 5.12

Column C: Column [A] + Column [B]

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Brief Schedule CSB-10

RATE BASE ADJUSTMENT NO. 6 - DEFERRED INCOME TAXES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Deferred Income Tax Liability	\$ -	524,000	\$ 524,000
2	Deferred Income Tax Asset	-	(360,000)	(360,000)
		<u>\$ -</u>	<u>\$ 164,000</u>	<u>\$ 164,000</u>

References:

Column A: Company Schedule B-2, Page 1

Column B: Testimony, CSB, Company Data Request Responses to RUCO 2.7

Column C: Column [A] + Column [B]

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Brief Schedule CSB-11

RATE BASE ADJUSTMENT NO. 7 - WORKING CAPITAL

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Prepaid Expenses	\$ 9,512	\$ (9,512)	\$ -
2	Cash Working Capital Allowance	\$ 130,508	\$ (130,508)	\$ -
3	Total Working Capital	\$ 140,020	\$ (140,020)	\$ -

References:

Column [A]: Company Schedule B-2

Column [B]: Testimony, CSB

Column [C]: Column [A] + Column [B]

OPERATING INCOME - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
REVENUES:						
1	Flat Rate Revenues	\$ 1,191,268	\$ (2,288)	\$ 1,188,980	\$ 250,195	\$ 1,439,175
2	Other Wastewater Revenues	16,472	-	16,472	-	16,472
3	Total Operating Revenues	\$ 1,207,740	\$ (2,288)	\$ 1,205,452	\$ 250,195	\$ 1,455,647
EXPENSES:						
4	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -
5	Purchased Wastewater Treatment	162,082	-	162,082	-	162,082
6	Sludge Removal Expense	981	-	981	-	981
7	Purchased Power	47,727	-	47,727	-	47,727
8	Fuel for Power Production	-	-	-	-	-
9	Chemicals	76,612	-	76,612	-	76,612
10	Materials and Supplies	30,420	(3,624)	26,796	-	26,796
11	Contractual Services - Professional	171,683	(12,433)	159,250	-	159,250
12	Contractual Services - Testing	11,000	-	11,000	-	11,000
13	Contractual Services - Other	226,595	(22,270)	204,325	-	204,325
14	Rental Expense	10,825	(566)	10,259	-	10,259
15	Transportation Expense	4,870	(2,327)	2,543	-	2,543
16	Insurance - General Liability	16,204	(596)	15,608	-	15,608
17	Regulatory Commission Expense	30,000	1,200	31,200	-	31,200
18	Miscellaneous Expense	77,401	(13,550)	63,851	-	63,851
19	Scottsdale Capacity Operating Lease	189,622	(27,801)	161,821	-	161,821
20	Depreciation	126,749	3,140	129,889	-	129,889
21	Taxes Other Than Income	-	-	-	-	-
22	Property Taxes	45,745	970	46,715	-	46,715
23	Income Taxes	(6,544)	56,519	49,975	106,146	156,122
24	Total Operating Expenses	\$ 1,221,972	\$ (21,339)	\$ 1,200,633	\$ 106,146	\$ 1,306,779
25	Operating Income (Loss)	\$ (14,232)	\$ 19,051	\$ 4,819	\$ 144,049	\$ 148,868

References:

Column (A): Company Schedule C-1, Page 2
Column (B): Schedule CSB-8
Column (C): Column (A) + Column (B)
Column (D): Schedules CSB-1 and CSB-2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Expensed Plant	[C] ADJ #2 Affiliate Expenses	[D] ADJ #3 Bad Debt Expense	[E] ADJ #4 Depreciation Expense	[F] ADJ #5 NonRecurring & Other Exp	[G] ADJ #6 Scottsdale Opera Lease	[H] ADJ #7 Food & Beverages	[I] ADJ #8 Property Taxes	[J] ADJ #9 Income Tax Expense	[J] ADJ #10 ACC Assessment	[L] ADJ #11 Rate Case Expense	[M] STAFF ADJUSTED
1	REVENUES:													
1	Fiat Rate Revenues	\$ 1,191,268	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,288)	\$ -	\$ 1,188,980
2	Other Wastewater Revenues	16,472	-	-	-	-	-	-	-	-	-	-	-	16,472
3	Total Revenues	\$ 1,207,740	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,288)	\$ -	\$ 1,205,452
4	OPERATING EXPENSES:													
4	Salaries and Wages	\$ -	-	-	-	-	-	-	-	-	-	-	-	-
5	Purchased Wastewater Treatment	162,082	-	-	-	-	-	-	-	-	-	-	-	162,082
6	Sludge Removal Expense	981	-	-	-	-	-	-	-	-	-	-	-	981
7	Purchased Power	47,727	-	-	-	-	-	-	-	-	-	-	-	47,727
8	Fuel for Power Production	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Chemicals	76,612	-	-	-	-	-	-	-	-	-	-	-	76,612
10	Materials and Supplies	30,420	(1,674)	(1,472)	-	-	-	-	(478)	-	-	-	-	26,796
11	Contractual Services - Professional	171,683	-	(9,205)	-	-	(3,228)	-	-	-	-	-	-	159,250
12	Contractual Services - Testing	11,000	-	-	-	-	-	-	-	-	-	-	-	11,000
13	Contractual Services - Other	226,595	(11,723)	(10,361)	-	-	-	-	(186)	-	-	-	-	204,325
14	Rents Expense	10,825	(566)	-	-	-	-	-	-	-	-	-	-	10,259
15	Transportation Expense	4,870	-	(127)	-	-	(2,200)	-	-	-	-	-	-	2,543
16	Insurance - General Liability	16,204	-	(596)	-	-	-	-	-	-	-	-	-	15,608
17	Regulatory Commission Expense	30,000	-	-	-	-	-	-	-	-	-	-	-	31,200
18	Miscellaneous Expense	77,401	(3,385)	(3,644)	(4,233)	-	-	-	-	-	-	-	1,200	63,851
19	Scottsdale Capacity Operating Lease	189,622	-	-	-	-	-	(27,801)	-	-	-	(2,288)	-	161,821
20	Depreciation	126,749	-	-	-	-	-	-	-	-	-	-	-	129,889
21	Taxes Other Than Income	-	-	-	-	-	-	-	-	-	-	-	-	-
22	Property Taxes	45,745	-	-	-	-	-	-	-	970	-	-	-	46,715
23	Income Taxes	(6,544)	-	-	-	-	-	-	-	-	56,519	-	-	49,975
24	Total Operating Expenses	\$ 1,221,972	\$ (17,348)	\$ (25,406)	\$ (4,233)	\$ 3,140	\$ (5,428)	\$ (27,801)	\$ (664)	\$ 970	\$ 56,519	\$ (2,288)	\$ 1,200	\$ 1,200,633
25	Operating Income (Loss)	\$ (14,232)	\$ 17,348	\$ 25,406	\$ 4,233	\$ (3,140)	\$ 5,428	\$ 27,801	\$ 664	\$ (970)	\$ (56,519)	\$ 0	\$ (1,200)	\$ 4,819

ADJ No.	References:
1	Schedule CSB-14
2	Expensed Plant
3	Affiliate Expenses
4	Schedule CSB-15
5	Bad Debt Expense
6	Schedule CSB-16
7	Depreciation Expense
8	Schedule CSB-17
9	Normalized Expenses
10	Schedule CSB-18
11	Scottsdale Operating Lease Payments
12	Schedule CSB-19
13	Food and Beverages
14	Schedule CSB-20
15	Property Tax Expense
16	Schedule CSB-21
17	Income Tax Expense
18	Schedule CSB-22
19	ACC Assessment
20	Schedule CSB-23

OPERATING INCOME ADJUSTMENT NO. 1 - EXPENSED PLANT

LINE NO.	Description	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Contractual Services, Other	\$ 226,595	\$ (11,723)	\$ 214,872
2	Rents Expense	\$ 10,825	\$ (566)	\$ 10,259
3	Miscellaneous Expense	\$ 77,401	\$ (3,385)	\$ 74,016
4	Material and Supplies Expense	\$ 30,420	\$ (1,674)	\$ 28,746
5	Total	\$ 345,241	\$ (17,348)	\$ 327,893

PLANT COST REMOVED FROM CONTRACTUAL SERVICES, OTHER EXPENSE (CSB 1.37)

Acct. No.	Vendor Name	Description	Amount
6	361-Collection Sewers Jensen Sys. Engineering	Algonquin Indian Basket Alarm	\$ 1,499.01
7	361-Collection Sewers Keller Equipment Co	Pull and Install Motors	\$ 1,947.71
8	361-Collection Sewers Keller Equipment Co	Rebuild Motor/Pump	\$ 1,119.65
9	361-Collection Sewers KSK Electric	Replace Meter Socket	\$ 1,315.00
10	361-Collection Sewers LTC, Inc.	Concrete Pad & Drain for Manhole	\$ 1,404.92
11		Subtotal	\$ 7,286.29
12	371-Effluent Pumping Plant Keller Equipment Co	Change out Pumps	\$ 551.62
13	371-Effluent Pumping Plant Keller Equipment Co	Pull Pump. Set New Pump	\$ 1,095.40
14		Subtotal	\$ 1,647.02
15	381-Plant Sewers Foster Elec. Motor Serv	Install Outlets in Vault	\$ 589.57
16	381-Plant Sewers KSK Electric	Boulder Facility Lighting Repair Proj.	\$ 2,200.00
17		Subtotal	\$ 2,789.57
18		Total	\$ 11,722.88

PLANT COSTS REMOVED FROM RENTS EXPENSE (CSB 1.38)

Acct. No.	Vendor Name	Description	Amount
21	371-Effluent Pumping Plant Pump Systems, Inc.	Replace Pump	\$ 566.13
22		Total	\$ 566.13

References:

Column A: Company Schedule C-1
Column B: Testimony, CSB, Company Data Request Responses CSB 1.37, 1.38, 1.40 & 7.13
Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 1 - EXPENSED PLANT
CONTINUED**

LINE NO.	PLANT COSTS REMOVED FROM MISCELLANEOUS EXPENSE (CSB 1.40)			
	Maricopa County Environ. Serv. Dept, Approval to Construct Expedited Fees			
	Acct. No	Project Title	Description	Amount
1	389-Other Plant & Misc Ex	Boulders WWTP Bypass	Reclaimed Water Line	\$ 500.00
2	389-Other Plant & Misc Ex	Boulders Effluent Pump	Addition of pumps	\$ - Removed \$700
3	371-Effluent Pumping Plai	Indian Basket Lift Station	Replace Existing Lift Station	\$ 700.00
4	389-Other Plant & Misc Ex	Boulders WWTP Bypass	Add Stucture and Manhole	\$ - Removed \$1,200
5			Subtotal	\$ 1,200.00
6	389-Other Plant & Misc Ex	Safety Equipment	Company Response to CSB 2.13b	\$ 2,184.75
7			Total	\$ 3,384.75

PLANT COSTS REMOVED FROM MISC. EXP., MATERIALS & SUPPLIES (CSB 7.13)			
	Acct. No.	Vendor Name	Description
			Amount
8	389-Other Plant & Misc Ex	Arizona Pneumatic Sys	Blower
9			Total
			\$ 1,674.47
			\$ 1,674.47

OPERATING INCOME ADJUSTMENT NO. 2 - AFFILIATE EXPENSES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Materials and Supplies Expense	\$ 30,420	\$ (1,472)	\$ 28,948
2	Contractual Services - Professional Expense	171,683	(9,205)	162,478
3	Contractual Services - Other Expense	226,595	(10,361)	216,234
4	Transportation Expense	4,870	(127)	4,743
5	Insurance - General Liability Expense	16,204	(596)	15,608
6	Miscellaneous Expense	30,420	(3,644)	26,776
7	Total	\$ 480,192	\$ (25,406)	\$ 454,786

Description	Affiliate Phone Charges Summary		
8 Miscellaneous Expense, AT&T Long Distance	\$ 2,186	\$ -	\$ 2,186
9 Misc Exp, Long Distance - Direct Charge to Gold Canyon	161	(161)	-
10 Miscellaneous Exp, AT&T Long Distance - Direct Charged to Texas		(514)	(514)
11 Misc Exp, Long Distance - Allocation to 3 Affiliated Companies	-	(1,254)	(1,254)
12 Total	\$ 2,346	\$ (1,928)	\$ 418

Description	Affiliate Paging Charges Summary		
13 Miscellaneous Expense, Teletouch Paging	\$ 2,651	\$ -	\$ 2,651
14 Misc Exp, Paging Services - Direct Charge to Texas Affiliates	-	(1,716)	(1,716)
15 Total	\$ 2,651	\$ (1,716)	\$ 935

	Profit Included In Affiliate Billings		
16 Materials and Supplies	\$ 22,639	6.50%	\$ 1,472
17 Contractual Services - Professional	141,623	6.50%	\$ 9,205
18 Contractual Services - Other	159,402	6.50%	\$ 10,361
19 Transportation Expense	1,952	6.50%	\$ 127
20 Insurance - General Liability	9,173	6.50%	\$ 596
21	\$ 334,789		\$ 21,761

References:

Column A: Company Data Request Response CSB 1.40
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

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Brief Schedule CSB-16

OPERATING INCOME ADJUSTMENT NO. 3 - BAD DEBT EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Bad Debt Expense - Direct Testimony	\$ 5,926	\$ (5,926)	\$ -
2	To Accept Company's Rebuttal Adjustment		1,693	1,693
3	Bad Debt Expense - Surrebuttal Testimony	\$ 5,926	\$ (4,233)	\$ 1,693

References:

Column A: Company Data Request Response CSB 1.30 & 5.9
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 4 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Retired PLANT	[C] Post Test Year Plant	[D] DEPRECIABLE PLANT (Col A - Col B + Col C)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	351 - Organization	\$ -	\$ -	\$ -	\$ -	0.00%	\$ -
2	352 - Franchises	\$ -	\$ -	\$ -	\$ -	0.00%	\$ -
3	353 - Land and Land Rights	\$ 461,300	\$ 461,300	\$ -	\$ (0)	0.00%	\$ -
4	354 - Structures and Improvements	\$ 1,239,905	\$ -	\$ -	\$ 1,239,905	3.33%	\$ 41,289
5	355 - Power Generation Equipment	\$ -	\$ -	\$ -	\$ -	5.00%	\$ -
6	360 - Collection Services - Force	\$ 568,413	\$ -	\$ -	\$ 568,413	2.00%	\$ 11,368
7	361 - Collection Services - Gravity	\$ 3,614,545	\$ -	\$ -	\$ 3,614,545	2.00%	\$ 72,291
8	362 - Special Collecting Structures	\$ -	\$ -	\$ -	\$ -	2.00%	\$ -
9	363 - Services to Customers	\$ 157,218	\$ -	\$ -	\$ 157,218	2.00%	\$ 3,144
10	364 - Flow Measuring Devices	\$ 39,829	\$ -	\$ -	\$ 39,829	10.00%	\$ 3,983
11	365 - Flow Measuring Installations	\$ 156,205	\$ -	\$ -	\$ 156,205	10.00%	\$ 15,620
12	370 - Receiving Wells	\$ 696,137	\$ -	\$ -	\$ 696,137	3.33%	\$ 23,181
13	371 - Effluent Pumping Equipment	\$ 453,558	\$ -	\$ -	\$ 453,558	12.50%	\$ 56,695
14	380 - Treatment and Disposal Equipment	\$ -	\$ -	\$ -	\$ -	5.00%	\$ -
15	381 - Plant Sewers	\$ 123,289	\$ -	\$ -	\$ 123,289	5.00%	\$ 6,164
16	382 - Outfall Sewer Lines	\$ -	\$ -	\$ -	\$ -	3.33%	\$ -
17	389 - Other Plant and Miscellaneous Equip	\$ 719,139	\$ -	\$ 85,699	\$ 804,838	6.67%	\$ 53,683
18	390 - Office Furniture and Equipment	\$ 220,360	\$ -	\$ -	\$ 220,360	6.67%	\$ 14,698
19	391 - Transportation Equipment	\$ 87,811	\$ -	\$ -	\$ 87,811	20.00%	\$ 17,562
20	393 - Tools, Shop and Garage Equipment	\$ -	\$ -	\$ -	\$ -	5.00%	\$ -
21	394 - Laboratory Equipment	\$ -	\$ -	\$ -	\$ -	10.00%	\$ -
22	395 - Power Operated Equipment	\$ -	\$ -	\$ -	\$ -	5.00%	\$ -
23	398 - Other Tangible Equipment	\$ 7,279	\$ -	\$ -	\$ 7,279	10.00%	\$ 728
24	Total Plant	\$ 8,544,987	\$ 461,300	\$ 85,699	\$ 8,169,386		\$ 320,407
25	Composite Depreciation Rate (Depr Exp / Depreciable Plant):	3.92%					
26	CIAC:	\$ 4,857,632					
27	Amortization of CIAC (Line 25 x Line 26):	\$ 190,519					
28	Depreciation Expense Before Amortization of CIAC:	\$ 320,407					
29	Less Amortization of CIAC:	\$ 190,519					
30	Test Year Depreciation Expense - Staff:	\$ 129,889					
31	Depreciation Expense - Company:	\$ 126,749					
32	Staff's Total Adjustment:	\$ 3,140					

References:

Column [A]: Schedule CSB-4
Column [B]: Staff Workpapers
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

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Brief Schedule CSB-18

OPERATING INCOME ADJUSTMENT NO. 5 - NONRECURRING & OTHER

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Transportation Expense	\$ 4,870	\$ (2,200)	\$ 2,670
2	Contractual Services, Professional	\$ 171,683	\$ (3,228)	\$ 168,455
		<u>\$ 176,553</u>	<u>\$ (5,428)</u>	<u>\$ 171,125</u>

References:

Column A: Company Data Request Response CSB 5.8 and 9.2

Column B: Testimony, CSB

Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 6 - OPERATING LEASE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Treatment Capacity Costs Per Dec. 59944	\$ 1,260,000	\$ -	\$ 1,260,000
2	Less Amount Funded by CIAC	\$ (300,000)	\$ -	\$ (300,000)
3	Net Amount Funded by Debt	\$ 960,000	\$ -	\$ 960,000
4	2006 Principle	\$ 38,448	\$ -	\$ 38,448
5	Income Tax Factor	1.4805	(0.4805)	1.0000
6	2006 Principle Plus Taxes	\$ 56,922	\$ (18,474)	\$ 38,448
7	Add: 2006 Interest	\$ 67,952	\$ -	\$ 67,952
8	Annual "Lease" Expense	\$ 124,874	\$ (18,474)	\$ 106,400
9	Treatment Capacity Costs Per Dec. 60240	\$ 653,706	\$ -	\$ 653,706
10	Less Amount Funded by CIAC	\$ (153,706)	\$ -	\$ (153,706)
11	Net Amount Funded by Debt	\$ 500,000	\$ -	\$ 500,000
12	2006 Principle	\$ 19,411	\$ -	\$ 19,411
13	Income Tax Factor	1.4805	(0.4805)	1.0000
14	2006 Principle Plus Taxes	\$ 28,738	\$ (9,327)	\$ 19,411
15	Add: 2006 Interest	\$ 36,010	\$ -	\$ 36,010
16	Annual "Lease" Expense	\$ 64,748	\$ (9,327)	\$ 55,421
17	Total Annual "Lease" Expense	\$ 189,622	\$ (27,801)	\$ 161,821

References:

Column A: Company Schedule C-2, Page 4
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

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Brief Schedule CSB-20

OPERATING INCOME ADJUSTMENT NO. 7 - FOOD AND BEVERAGES

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Contractual Services, Other	\$ 226,595	\$ (478)	\$ 226,117
2	Material and Supplies Expense	77,401	(186)	77,215
3	Total	\$ 303,996	\$ (664)	\$ 303,332

References:

Column A: Company Schedule C-1
Column B: Testimony, CSB, Company Data Request Responses CSB 1.43 and 7.15
Column C: Column [A] + Column [B]

1

References:

Column A: Company Data Request Response CSB 1-3 and 2-9
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

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Brief Schedule CSB-21

OPERATING INCOME ADJUSTMENT NO. 8 - PROPERTY TAX EXPENSE

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENT		STAFF AS ADJUSTED	
1	2004 Staff Adjusted Test Year Revenues					\$	1,205,452
2	Weight Factor					\$	2
3	Subtotal (Line 1 x Line 2)					\$	2,410,904
4	Staff Recommended Revenue					\$	1,455,647
5	Subtotal (Line 4 + Line 5)					\$	3,866,551
6	Number of Years					\$	3
7	Three Year Average (Line 5 / Line 6)					\$	1,288,850
8	Department of Revenue Multiplier						2
9	Revenue Base Value (Line 7 x Line 8)					\$	2,577,701
10	Plus: 10% of 2004 CWIP					\$	-
11	Less: Net Book Value of Licensed Vehicles					\$	7,279
12	Full Cash Value (Line 9 + Line 10 - Line 11)					\$	2,570,422
13	Assessment Ratio						0.24
14	Assessed Value (Line 12 x Line 13)					\$	616,901
15	Composite Property Tax Rate						0.07573
16	Staff Proposed Property Tax Expense (Line 14 x Line 15)	\$	45,745	\$	970	\$	46,715

References:

Column A: Company Schedule C-1, Page 2
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

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Brief Schedule CSB-22

OPERATING INCOME ADJUSTMENT NO. 9 - TEST YEAR INCOME TAXES

LINE NO.	DESCRIPTION	(A)	(B)
<u>Calculation of Income Tax:</u>		Test Year	
1	Revenue (Schedule CSB-9, Line 9)	\$ 1,205,452	
2	Less: Operating Expenses - Excluding Income Taxes & Lease Expense	\$ 988,837	
3	Less: Synchronized Interest (L17)	\$ 62,339	
4	Arizona Taxable Income (L1- L2 - L3)	\$ 154,277	
5	Arizona State Income Tax Rate	6.968%	
6	Arizona Income Tax (L4 x L5)	\$	10,750
7	Federal Taxable Income (L4 - L6)	\$ 143,527	
8	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500	
9	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ 6,250	
10	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500	
11	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 16,975	
12	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -	
13	Total Federal Income Tax		\$ 39,225
14	Combined Federal and State Income Tax (L6 + L13)		\$ 49,975
<u>Calculation of Interest Synchronization:</u>			
15	Rate Base (Schedule CSB-13, Col. (C), Line 16)	\$ 1,550,710	
16	Weighted Average Cost of Debt	4.02%	
17	Synchronized Interest (L16 x L17)	\$ 62,339	
18	Income Tax - Per Staff	\$ 49,975	
19	Income Tax - Per Company	\$ (6,544)	
20	Staff Adjustment	\$ 56,519	

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Brief Schedule CSB-23

OPERATING INCOME ADJUSTMENT NO. 10 - ACC ASSESSMENT

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	ACC Assessment	\$ 2,288	\$ (2,288)	\$ -

References:

Column A: Company Data Request Response CSB 1.30
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

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Brief Schedule CSB-24

OPERATING INCOME ADJUSTMENT NO. 11 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Additional Rate Case Expense	\$ 30,000	\$ (25,200)	\$ 4,800
2	Number of Years Normalized	4	4	4
3	Additional Annual Rate Case Expense (L1 / L4)	\$ 7,500	\$ (6,300)	\$ 1,200

References:

Column A: Company Data Request Rebuttal Testimony
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

RATE DESIGN

	Direct Present Rates	Direct Company Proposed	Surrebuttal Staff Recommended
Residential Service-Per Month	\$38.00	\$ 43.19	\$45.76
Commercial, Regular (c)	\$ 0.15236	\$ 0.01732	\$ 0.18346

Commercial - Special Rate	Present Rates			Company Proposed			Staff Recommended		
Name of Business	Gallons Per Day	Rate Per Gallon	Monthly Charge	Gallons Per Day	Rate Per Gallon	Monthly Charge	Gallons Per Day	Rate Per Gallon	Monthly Charge
BH Enterprises-West	2,525	\$0.11685	\$295.05	2,525	\$0.13280	\$335.32	2,525	\$0.14070	\$355.27
BH Enterprises-East	1,400	\$0.11685	\$163.59	1,400	\$0.13280	\$185.92	1,400	\$0.14070	\$196.98
Barb's Pet Grooming	250	\$0.11685	\$29.21	250	\$0.13280	\$33.20	250	\$0.14070	\$35.17
Boulder's Resort	29,345	\$0.11843	\$3,475.33	29,345	\$0.13459	\$3,949.54	29,345	\$0.14260	\$4,184.64
Carefree Dental	1,625	\$0.11685	\$189.88	1,625	\$0.13280	\$215.80	1,625	\$0.14070	\$228.64
Ridgecrest Realty	450	\$0.11818	\$53.18	450	\$0.13431	\$60.44	450	\$0.14230	\$64.04
Desert Forest	7,000	\$0.13609	\$952.63	7,000	\$0.15467	\$1,082.69	7,000	\$0.16387	\$1,147.06
Desert Hills Pharmacy	800	\$0.14206	\$113.65	800	\$0.16145	\$129.16	800	\$0.17105	\$136.84
El Pedregal	15,787	\$0.11685	\$1,844.71	15,787	\$0.13280	\$2,096.51	15,787	\$0.14070	\$2,221.22
Lemon Tree	300	\$0.11400	\$43.20	300	\$0.12956	\$43.20	300	\$0.13727	\$43.20
Body Shop	1,000	\$0.14544	\$145.44	1,000	\$0.16529	\$165.29	1,000	\$0.17512	\$175.12
Spanish Village	4,985	\$0.11685	\$582.50	4,985	\$0.13280	\$662.01	4,985	\$0.14070	\$701.38
Boulder's Club	1,200	\$0.11685	\$140.22	1,200	\$0.13280	\$159.36	1,200	\$0.14070	\$168.84
Anthony Vuitaggio	300	\$0.12987	\$38.96	300	\$0.14760	\$44.28	300	\$0.15638	\$46.91

Effluent Sales

Per thousand gallons \$0.374400

Service Charges:

	Present Rates	Company Proposed	Staff Recommended
Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Re-establishment	\$ 25.00	\$ 25.00	\$ 25.00
Re-connection	No Charge	No Charge	No Charge
Minimum Deposit (Residential)	(a)	(a)	(a)
Minimum Deposit (Non-Residential)	(a)	(a)	(a)
Deposit Interest	N/A	N/A	(a)
NSF Check Charge	\$ 10.00	\$ 10.00	\$ 10.00
Deferred Paymnt Finance Charge	1.50%	1.50%	1.50%
Late Charge	1.50%	1.50%	1.50%

Main Extension Tariff (b)	Cost	Cost	Cost
Hook-Up Fee for New Service (c)	\$ 6.47	\$ 6.47	Discontinue

(a) Per A.A.C. R14-2-603B: Residential - two times average bill, Non-residential - two and one-half times average bill

(b) Per A.A.C. R14-2-406B

(c) Per Gallon per Day. Wastewater flows are based on Engineering Bulletin 12, Table 1.

N/A Not included in current or proposed tariff.

Black Mountain Sewer Corporation
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
<u>Description</u>	<u>Weight (%)</u>	<u>Cost</u>	<u>Weighted Cost</u>
Staff Recommended Structure			
Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	9.6%	9.6%
Weighted Average Cost of Capital/ROR			9.6%
Company Proposed Structure			
Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	11.0%	11.0%
Weighted Average Cost of Capital/ROR			11.0%

[D] : [B] x [C]
Supporting Schedule: PMC-3

Black Mountain Sewer Corporation
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
DCF Method				
Constant Growth DCF Estimate		$\frac{D_1}{P_0}^1$	+	$\frac{g}{2}$
Multi-Stage DCF Estimate		3.1%	+	6.3%
Average of DCF Estimates				K
				9.4%
				<u>9.8%</u>
				9.6%
CAPM Method				
Historical Market Risk Premium ³	R_f	β^5	x	(R_p)
Current Market Risk Premium ⁴	4.8%	0.74	x	7.1% ⁶
Average of CAPM Estimates	4.9%	0.74	x	5.4% ⁷
				K
				10.1%
				<u>8.9%</u>
				9.5%
Financial risk adjustment				9.6%
Average				-0.5%
Total				9.1%

1 MSN Money and Value Line

2 PMC-7

3 Wall Street Journal (Rf) 5, 7, and 10 year Treasury rates

4 Wall Street Journal (Rf) 30 Year Treasury bond rate

5 Value Line

6 Historical Market Risk Premium (Rp) from Ibbotson Associates SBBI 2006 Yearbook

7 Testimony

Black Mountain Sewer Corporation
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
<u>Company</u>	<u>Debt</u>	<u>Common Equity</u>	<u>Total</u>
American States Water	50.8%	49.2%	100.0%
California Water	48.7%	51.3%	100.0%
Aqua America	56.2%	43.8%	100.0%
Connecticut Water	44.9%	55.1%	100.0%
Middlesex Water	60.7%	39.3%	100.0%
SJW Corp	<u>62.1%</u>	<u>37.9%</u>	<u>100.0%</u>
Average Sample Water Utilities	53.9%	46.1%	100.0%
Black Mountain Sewer Corporation ¹	42.7%	57.3%	100.0%

Source:

Sample Water Companies from Value Line

1 : Reflects actual capital structure. However, Staff adopted 100 percent equity as the capital structure for determining the rate of return to be consistent with treating the loan payments as operating expense.

Black Mountain Sewer Corporation
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
<u>Company</u>	Dividends Per Share 1995 to 2004 <u>DPS¹</u>	Dividends Per Share Projected <u>DPS¹</u>	Earnings Per Share 1995 to 2004 <u>EPS¹</u>	Earnings Per Share Projected <u>EPS¹</u>
American States Water	0.9%	1.5%	0.2%	14.9%
California Water	1.0%	1.9%	2.2%	8.0%
Aqua America	5.3%	7.9%	8.2%	13.4%
Connecticut Water	1.1%	No Projection	1.9%	No Projection
Middlesex Water	2.0%	No Projection	0.7%	No Projection
SJW Corp	<u>3.8%</u>	<u>No Projection</u>	<u>4.0%</u>	<u>No Projection</u>
Average Sample Water Utilities	2.4%	3.8%	2.9%	12.1%

¹ Value Line

Black Mountain Sewer Corporation
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
	Retention Growth 1995 to 2004 br	Retention Growth Projected br	Stock Financing Growth vs	Sustainable Growth 1995 to 2004 br + vs	Sustainable Growth Projected br + vs
<u>Company</u>					
American States Water	2.5%	6.7%	1.5%	4.0%	8.2%
California Water	2.5%	4.8%	3.0%	5.6%	7.8%
Aqua America	4.2%	7.4%	7.6%	11.8%	15.0%
Connecticut Water	3.0%	No Projection	0.5%	3.5%	No Projection
Middlesex Water	1.4%	No Projection	4.4%	5.9%	No Projection
SJW Corp	5.0%	No Projection	0.0%	5.0%	No Projection
Average Sample Water Utilities	3.1%	6.3%	2.8%	6.0%	10.3%

[B]: Value Line
[C]: Value Line
[D]: Value Line and MSN Money
[E]: [B]+[D]
[F]: [C]+[D]

Black Mountain Sewer Corporation
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
	<u>Symbol</u>	<u>Spot Price</u> 4/5/2006	<u>Book Value</u>	<u>Mkt To</u> <u>Book</u>	<u>Value Line</u> Beta <u>β</u>	<u>Raw</u> Beta <u>β_{raw}</u>
	American States Water	37.45	15.86	2.4	0.75	0.60
	California Water	44.57	15.82	2.8	0.75	0.60
	Aqua America	27.45	6.30	4.4	0.80	0.67
	Connecticut Water	25.16	11.38	2.2	0.75	0.60
	Middlesex Water	18.79	8.30	2.3	0.75	0.60
	SJW Corp	25.74	10.07	2.6	0.65	0.45
	Average			2.8	0.74	0.58

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]: $-0.35 + [F] / 0.67$

Black Mountain Sewer Corporation
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
<u>Description</u>	g
DPS Growth - Historical ¹	2.4%
DPS Growth - Projected ¹	3.8%
EPS Growth - Historical ¹	2.9%
EPS Growth - Projected ¹	12.1%
Sustainable Growth - Historical ²	6.0%
<u>Sustainable Growth - Projected²</u>	<u>10.3%</u>
Average	6.3%

¹ Schedule PMC-4

² Schedule PMC-5

Black Mountain Sewer Corporation
Multi-Stage DCF Estimates
Sample Water Utilities

[A] Company	[B] Current Mkt. Price (P_0) ¹ 4/5/2006	[C] Projected Dividends ² (Stage 1 growth) (D_t)				[E]	[F]	[H] Stage 2 growth ³ (g_n)	[I] Equity Cost Estimate (K) ⁴
		d_1	d_2	d_3	d_4				
American States Water	37.5	0.91	0.97	1.03	1.10			6.8%	9.2%
California Water	44.6	1.21	1.29	1.37	1.45			6.8%	9.4%
Aqua America	27.5	0.44	0.47	0.50	0.53			6.8%	8.3%
Connecticut Water	25.2	0.88	0.93	0.99	1.05			6.8%	10.2%
Middlesex Water	18.8	0.69	0.73	0.78	0.83			6.8%	10.4%
SJW Corp	25.7	1.14	1.21	1.29	1.37			6.8%	11.1%

Average **9.8%**

$$P_0 = \sum_{t=1}^n \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K - g_n} \left[\frac{1}{(1+K)} \right]^n$$

Where : P_0 = current stock price

D_t = dividends expected during stage 1

K = cost of equity

n = years of non-constant growth

D_n = dividend expected in year n

g_n = constant rate of growth expected after year n

1 [B] see schedule PMC-6

2 Derived from Value Line Information

3 Average annual growth in GDP 1929 - 2005 in current dollars.

4 Internal Rate of Return of Projected Dividends